

# MORAWETZ OFFERS NEW RAILROAD PLAN

Federal Board Should Be Put  
in Full Charge, Is Belief  
of Economist.

## ACT OF CONGRESS URGED

Operation of Lines by U. S.  
Government Is Called Cost-  
ly and Inefficient.

Walter Morawetz, an economist who is considered in the financial district to be one of the foremost authorities in the country on railway finance, has prepared for private circulation a plan for a solution of the railway problem which differs radically from the plan put forward by the Association of Railway Executives. A copy of the plan, with an attendant analysis of the railway situation, was obtained yesterday from the SEC. The pamphlet follows:

Permanent Government operation of railways would be contrary to the best interests of the country and should be rejected. It would result in unproductive, costly and inefficient operation with poor service to the public and high rates.

Security of railway investments and capital needed for the development of the railways cannot be obtained under any practical system of Government rate fixing or regulation, unless accompanied by a guarantee of a fair return on the investment.

Security of railway investments cannot be obtained by making the power of the Government to fix rates or to regulate the railways dependent upon the "reasonableness" or "adequacy" of the rates or regulations, or upon the application of any formula that can be devised.

## Tests Are Impractical.

Experience shows that all such tests are impracticable and illusory. Review by the courts of rates and regulations to remedy against unfair or unfair regulation. The courts are not fitted to supervise the regulation of the railways or to determine the reasonableness of their rates.

No satisfactory result can be attained without putting an end to regulation of the railways and rates by the Government. To obtain effective and wise regulation it is necessary to vest supreme authority in some board appointed by the nation's Government. Of course, the members of this board must be competent men, but competent men are essential to the successful operation of any plan.

The Government cannot safely give the necessary guarantee of a fair return on investments in the railways unless vested with plenary control over the railways and rates. The Government must be able to regulate the rates of the railways and to regulate the rates of the railways and to regulate the rates of the railways.

## Advantages of Pooling.

Efficient and economical operation of railways and of the best service to the public can be obtained only by pooling the equipment and terminals of the lines. The pooling of the equipment and terminals of the lines is essential to the efficient and economical operation of the railways.

## Would Depress Bond Prices.

As it would become necessary to issue vast amounts of Government bonds, their value would be greatly depressed. The value of the bonds would be depressed because of the large amount of bonds issued. The value of the bonds would be depressed because of the large amount of bonds issued.

## Against Government Guarantee.

A proposal that the Government should guarantee the bonds of the railways is impracticable and illusory. The Government cannot safely give the necessary guarantee of a fair return on investments in the railways unless vested with plenary control over the railways and rates.

## Where Government Would Lose.

Simply to condemn the equity of the stockholders of a railway company, leaving its outstanding bonds and other indebtedness undisturbed, would not be satisfactory to the Government, because the result would be to give to the holders of the outstanding bonds and other indebtedness a practical guarantee of the claims of the Government.

## Results Expected From Plan.

The plan herein proposed is designed to attain the following ultimate results:

1. To vest the railways (taken in suitable groups) in ten to fifteen corporations formed pursuant to an act passed by Congress under its power to regulate commerce and establish military and post roads; these Federal corporations to be free from State regulation and to be subject to the fullest regulation and control of the Federal Government.
2. To refund the bonds and stocks of the present companies by the issue of debentures and stocks of the new Federal corporations, these debentures and the stocks to be guaranteed minimum dividends.
3. To provide the capital needed for the future development and extension of the railways.
4. To establish a Federal railway board and suitable subsidiary boards for the effective regulation of the railways with due regard for local interests.
5. To provide for the future efficient management and operation of the new Federal corporations under the supervision and control of the Federal railway board.

## Difficulties in Plan.

The main difficulties of carrying out this plan are:

- (a) To establish the fair value or just compensation share in the case of the railway in guaranteed debentures and stock of the new Federal corporation in which the railway is to be vested; and
- (b) To distribute this just compensation equitably among the existing bondholders and stockholders.

The original cost or the reproduction cost of the property of a company furnishes no just measure for fixing its rates and no just measure of what would constitute fair compensation for its property. To fix rates or compensation on the basis of the original cost would in many cases deprive the owner of a large accretion of value to which they are legally and morally entitled.

The reproduction cost of railways has been the principal cause of the large increase of the value of lands and other property throughout the country and the railroads built in the just expectation that their value would be increased by the increase of value. To fix the rates of a railway on the basis of a fair return on original cost or to condemn it at its reproduction cost would be as wrong legally and morally as to condemn the property of farmers and owners of city lots at the prices originally paid therefor to the Government.

## True Value of a Railroad.

The cost of reproduction furnishes no just test because the true value of a railroad, as of any other piece of property, depends largely upon its location and surrounding conditions. A railroad serving a territory producing only a small amount of traffic or a railroad whose operating conditions are unfavorable by reason of grade or other causes cannot earn as much and is not worth as much as another railroad serving a territory producing a large amount of traffic and having favorable operating conditions. The reproduction cost of the two railroads would be equal.

Rates upon competitive business must be the same as to all companies and it is quite impracticable to fix rates in such manner as to enable each company to earn a fixed return and no more upon the reproduction cost of its property.

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## Plan to Remedy All Defects.

The plan suggested is an act of Congress to be passed conferring all powers necessary to carry out the following ideas:

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standard for determining what rates are reasonable and fair.

The resulting uncertainty has been the principal cause of the failure of the credit of the railway companies and it is the principal source of difficulty in estimating their prospective operating income and the value of their property.

However, under the plan now proposed it will not be necessary to estimate with accuracy the value of the railways, or their prospective true operating income, or the rates at which this estimated operating income should be capitalized. It is not proposed to pay for the railways in cash or its equivalent.

## New Corporations Are Favored.

The plan is to vest the railways in new corporations which will issue their bonds and stocks in exchange, and the bonds and stocks thus issued will simply represent these railways, whatever their value and their prospective operating income may be. Under the plan now proposed an estimate of the prospective operating income of the railways is not required. The relative value of the several railways to be vested in each Federal corporation, so that some of the existing companies may be sold at an advance and the balance of the others at a loss.

## Guarantee by the Government.

Payment of the principal and interest of the debentures issued by the Federal corporations and payment of fixed minimum dividends (say \$2.50 per share) on their stocks to be guaranteed by the United States.

Upon any distribution of net income of a Federal corporation in excess of a minimum dividend on its stock (say \$1 per share per annum, noncumulative), the balance could not justly be applied to a case in which owing to a receivership or other abnormal conditions the average operating income of the three test years did not fairly reflect the earning capacity of the property. Each case must be dealt with in the light of all pertinent facts.

## Issues for Each Rail Property.

It is further suggested tentatively that for each railway property vested in a Federal corporation there be issued:

- (a) 1 per cent debentures of the Federal corporation, guaranteed by the Government, to an aggregate amount that would insure an interest charge equal to 40 per cent of the estimated operating income of the property.
- (b) Shares of stock to an amount upon which the remaining 60 per cent of the operating income would suffice to pay 16 per cent of the aggregate amount of debentures and stock of the Federal corporation to be issued in exchange for the property.

## Holders Likely to Agree.

It is believed that the great bulk of the stockholders and bondholders of the companies would soon agree to any plan which would give them a fair return on their investments. The plan suggested is an act of Congress to be passed conferring all powers necessary to carry out the following ideas:

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(b) \$20,000 shares of stock (with-out par value) upon which \$6 per share would be earned and the Government would guarantee \$2.50, or \$50,000.

Total Government guarantee, \$3,000,000.

## U. S. Option on Stock at \$55.

The Government to have an option right to purchase the stock at any time at \$55 per share.

As expenditures for unprofitable improvements, etc., would be deducted from the operating income shown under the rules of the Interstate Commerce Commission in determining the true operating income for the purposes of this plan, the whole amount thereof could properly be distributed. Assuming that the operating income in excess of dividends of \$4 per share on the stock is to be divided between the stockholders and the Government, the \$6,000,000 of operating income would be applied as follows:

## Method of Issuing Stock.

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## Limitations Set on Issues.

The aggregate amount of debentures and stock of a Federal corporation to be issued for each property shall not exceed an amount fixed as provided in paragraph 14 introductory to this plan on the basis of the estimated prospective operating income of the property.

For example, if the true operating income of a railway company is \$6,000,000 per annum, the aggregate amount of debentures and stock of the Federal corporation to be issued for the property would be as follows:

## WINTER RESORTS.

LAKESIDE, N. J. - The Lakewood Hotel, which has been the scene of a recent fire, is now open for business. The hotel is a fine building with a large swimming pool and a tennis court. It is a popular resort for the winter months.

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